



# *Trading Tyranny for Freedom*

## *How Open Markets Till the Soil for Democracy*

by **Daniel T. Griswold**

### **Executive Summary**

In the aftermath of September 11, the foreign policy dimension of trade has reasserted itself. Expanding trade, especially with and among less developed countries, is once again being recognized as a tool for encouraging democracy and respect for human rights in regions and countries of the world where those commodities have been the exception rather than the rule.

Political scientists have long noted the connection between economic development, political reform, and democracy. Increased trade and economic integration promote civil and political freedoms directly by opening a society to new technology, communications, and democratic ideas. Economic liberalization provides a counterweight to governmental power and creates space for civil society. And by promoting faster growth, trade promotes political freedom indirectly by creating an economically independent and politically aware middle class.

The reality of the world today broadly reflects those theoretical links between trade, free markets, and political and civil

freedom. As trade and globalization have spread to more and more countries in the past 30 years, so too have democracy and political and civil freedoms. In particular, the most economically open countries today are more than three times as likely to enjoy full political and civil freedoms as those that are relatively closed. Those that are closed are nine times more likely to completely suppress civil and political freedoms than those that are open. Nations that have followed a path of trade reform in recent decades by progressively opening themselves to the global economy are significantly more likely to have expanded their citizens' political and civil freedoms.

The powerful connection between economic openness and political and civil freedom provides yet another argument for pursuing an expansion of global trade. In the Middle East, China, Cuba, Central America, and other regions, free trade can buttress U.S. foreign policy by tilling foreign soil for the spread of democracy and human rights.

**Economic openness and the commercial competition and contact it brings can directly and indirectly promote civil and political freedoms within countries.**

## **Introduction**

During the Cold War, Democratic and Republican presidents alike advocated international trade as a necessary tool for promoting human rights and democracy abroad and, ultimately, a more peaceful world. Trade expansion was seen as an instrument not only for raising living standards but for knitting together our Cold War allies and spreading the values and blessings of freedom to a wider circle of countries.

In the aftermath of September 11, the foreign policy dimension of trade has reasserted itself. Expanding trade, especially with and among less developed countries, is once again being recognized as a tool for encouraging democracy and respect for human rights in regions and countries of the world where those commodities have been the exception rather than the rule. The implied connection between trade and democracy adds a foreign policy dimension to U.S. economic policy toward China, sub-Saharan Africa, and Latin America, and new initiatives to expand trade with and among nations of the Middle East and other Muslim-majority regions.

In a November 6, 2003, speech on the need to promote democracy in the Muslim world, President George W. Bush explicitly drew the connection between economic and political freedoms:

Historians will note that in many nations, the advance of markets and free enterprise helped to create a middle class that was confident enough to demand their own rights. They will point to the role of technology in frustrating censorship and central control—and marvel at the power of instant communications to spread the truth, the news, and courage across borders.<sup>1</sup>

In an April 2002 speech in which President Bush urged Congress to grant him trade promotion authority, he argued that trade is about more than raising incomes. “Trade creates the habits of freedom,” the president said, and

those habits “begin to create the expectations of democracy and demands for better democratic institutions. Societies that are open to commerce across their borders are more open to democracy within their borders.”<sup>2</sup> Other administration officials have taken that reasoning a step further, arguing that the democracy and respect for human rights that trade can foster would create a more peaceful world, reducing the frustration and resentment that can breed radicalism and terrorism.

There is a great deal of research on the economic impact of trade, but much less on its political impact. Do the assertions that expanding trade and international commerce promote democracy and human rights make sense in theory, and do they stand up to empirical scrutiny? The evidence from this study strongly suggests that those assertions rest on solid ground and deserve to be considered as Congress and the administration shape our international economic and trade policy.

## **Theory: How Free Markets Foster Political Freedoms**

Economic openness and the commercial competition and contact it brings can directly and indirectly promote civil and political freedoms within countries. Trade can influence the political system directly by increasing the contact a nation’s citizens experience with the rest of the world, through face-to-face meetings, and electronic communications, including telephone, fax, and the Internet. Commercial communication can bring a sharing of ideas and exposure to new ways of thinking, doing business, and organizing civil society. Along with the flow of consumer and industrial goods often come books, magazines, and other media with political and social content. Foreign investment and services trade create opportunities for foreign travel and study, allowing citizens to experience first-hand the civil liberties and more representative political institutions of other nations.

Economic freedom and trade provide a counterweight to governmental power. A free

market diffuses economic decisionmaking among millions of producers and consumers rather than leaving it in the hands of a few centralized government actors who could, and often do, use that power to suppress or marginalize political opposition. Milton Friedman, the Nobel-prize-winning economist, noted the connection between economic and political freedom in his 1962 book, *Capitalism and Freedom*.

Viewed as a means to the end of political freedom, economic arrangements are important because of their effect on the concentration or dispersion of power. The kind of economic organization that provides economic freedom directly, namely competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other.<sup>3</sup>

This dispersion of economic control, in turn, creates space for nongovernmental organizations and private-sector alternatives to political leadership—in short, civil society. A thriving private economy creates sources of funding for nonstate institutions, which in turn can provide ideas, influence, and leadership outside the existing government. A more pluralistic social and political culture greatly enhances the prospects for a more pluralistic and representative political system. Private-sector corporations, both domestic and foreign-owned, create an alternate source of wealth, influence, and leadership. Theologian and social thinker Michael Novak identified this as the “Wedge Theory,” in which capitalist practices “bring contact with the ideas and practices of the free societies, generate the economic growth that gives political confidence to a rising middle class, and raise up successful business leaders who come to represent a political alternative to military or party leaders. In short, capitalist firms wedge a democratic camel’s nose under the authoritarian tent.”<sup>4</sup>

Just as important, economic freedom and openness encourage democracy indirectly by

raising living standards and expanding the middle class. Economic theory and evidence lean heavily toward the conclusion that open economies tend to grow faster and achieve higher incomes than closed economies. The *Economic Freedom of the World* study by James Gwartney and Robert Lawson found that nations that ranked in the top quintile in terms of economic openness from 1980 to 1998 experienced annual economic growth that was almost five times faster (2.4 percent vs. 0.5 percent) than those nations in the bottom quintile of openness. People living in the most open economies enjoyed far higher annual incomes per capita (\$22,306 vs. \$2,916) than those living in the most closed economies.<sup>5</sup> A study by World Bank economists David Dollar and Aart Kraay found that less developed countries that opened themselves to the global economy grew much faster than those that remained relatively closed.<sup>6</sup> Other academic studies have reached similar conclusions.<sup>7</sup>

The faster growth and greater wealth that accompany trade promote democracy by creating an economically independent and politically aware middle class. A sizeable or dominant middle class means that more citizens can afford to be educated and take an interest in public affairs. As citizens acquire assets and establish businesses and careers in the private sector, they prefer the continuity and evolutionary reform of a democratic system to the sharp turns and occasional revolutions of more authoritarian systems. People who are allowed to successfully manage their daily economic lives in a relatively free market come to expect and demand more freedom in the political and social realms.

Economic development raises expectations that change and progress are possible. In less developed countries, it often leads to growing urbanization, which fosters greater literacy, communication, and access to alternative media. Palpable material progress can take the steam out of radical political movements that feed on frustration and hopelessness, and increase tolerance for minority ethnic and political groups. Ruling elites tend to treat their middle-class countrymen with more respect

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and deference than they would those in the impoverished and uneducated lower classes.

Political scientists have long noted the connection between economic growth, political reform, and democracy. As Seymour Martin Lipset observed in his classic study, *Political Man: The Social Bases of Politics*:

The more well-to-do a nation, the greater the chances that it will sustain democracy. From Aristotle down to the present, men have argued that only in a wealthy society in which relatively few citizens lived at the level of real poverty could there be a situation in which the mass of the population intelligently participate in politics and develop the self-restraint necessary to avoid succumbing to the appeals of irresponsible demagogues.<sup>8</sup>

Wealth by itself does not promote democracy if the wealth is controlled by the state or a small ruling elite. A resource-rich country can have a relatively high per capita gross domestic product, but if its natural wealth is centrally held and does not nurture an autonomous middle class that earns its wealth independently of the state, the prospects for political pluralism, civil liberties, and democracy are probably no better than in a poor country without resources. For wealth to cultivate the soil for democracy, it must be produced, retained, and controlled by a broad base of society, and for wealth to be created in that manner, an economy must be relatively open and free.

### **Evidence: The Link between Economic and Political Freedom**

The reality of the world today broadly reflects those theoretical links between trade, free markets, and political and civil freedom. As trade and globalization have spread to more and more countries in the last 30 years, so too have democracy and political and civil freedoms. In particular, people who live in countries that are relatively open to trade are much

more likely to live in democracies and enjoy full civil and political freedoms than those who live in countries relatively closed to trade. Nations that have followed a path of trade reform in recent decades by progressively opening themselves to the global economy are significantly more likely to have expanded their citizens' political and civil freedoms.

### **Twin Trends of Global Freedom**

The recent trend toward globalization has been accompanied by a trend toward greater political and civil liberty around the world. In the past 30 years, cross-border flows of trade, investment, and currency have increased dramatically, and far faster than output itself. Trade barriers have fallen unilaterally and through multilateral and regional trade agreements in Latin America; the former Soviet bloc nations; East Asia, including China; and more developed nations as well.

During that same period, political and civil liberties have been spreading around the world. Thirty years ago democracies were the exception in Latin America, while today they are the rule. Many former communist states from the old Soviet Union and its empire have successfully transformed themselves into functioning democracies that protect basic civil and political freedoms. In East Asia, democracy and respect for human rights have replaced authoritarian rule in South Korea, Taiwan, Thailand, the Philippines, and Indonesia.

According to Freedom House, a New York-based human rights organization, the share of the world's population that enjoys full civil and political liberties has risen sharply in the past three decades. The share of the world's people who live in countries Freedom House classifies as "Free"—meaning "countries in which there is broad scope for open political competition, a climate of respect for civil liberties, significant independent civic life, and independent media"—has jumped from 35 percent in 1973 to 44 percent today. Meanwhile, the share of people living in countries classified as "Not Free"—"where basic political rights are absent and basic civil liberties were widely and systematically denied"—has dropped from 47

**Figure 1**  
**Expansion of Political and Civil Freedom, 1973 to 2003**



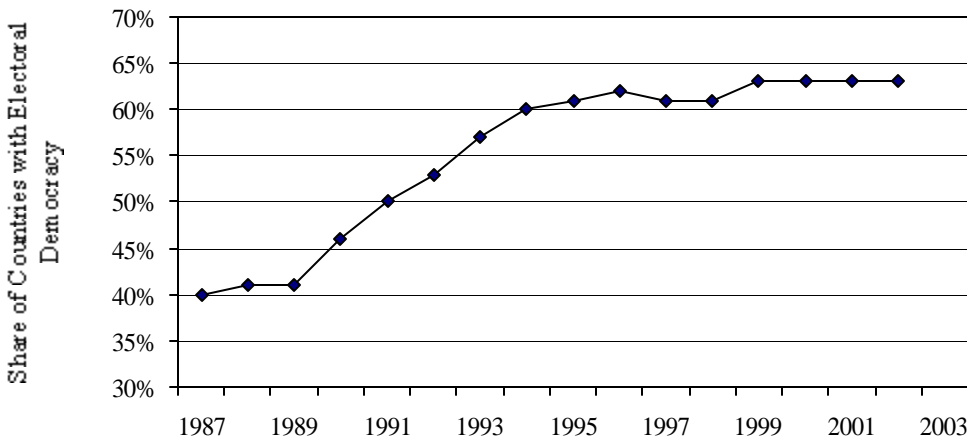
Source: Freedom House.

to 35 percent. The share of people living in countries classified as “Partly Free”—those “in which there is limited respect for political rights and civil liberties”—has increased slightly from 18 to 21 percent (see Figure 1).<sup>9</sup>

As globalization accelerated in the late 1980s after the fall of the Berlin Wall, so too did the global trend toward democracy. Again, according to Freedom House, the share of the world’s governments that are democratically elected has spiked from 40 percent in the mid-1980s to 63 percent in 2002–03 (see Figure 2).<sup>10</sup>

The world has experienced other periods of broad advancement in human liberty. Political scientist Samuel P. Huntington calls the most recent advance the “third wave of democratization.” The first wave began early in the 19th century with the end of the Napoleonic Wars in Europe, when representative government took root in the United States; Great Britain; Switzerland; France; Britain’s overseas dominions such as Canada, Australia, and New Zealand; and several smaller European states. The second wave began in the aftermath of

**Figure 2**  
**The Advance of Electoral Democracy, 1987 to 2002**



Source: Freedom House.

**Nations with open and free economies are far more likely to enjoy full political and civil liberties than those with closed and state-dominated economies.**

World War II with the democratization of the defeated axis powers of West Germany, Italy, Austria, Japan, and in Uruguay, Brazil, Costa Rica, and India.<sup>11</sup>

The first wave of democratization occurred during a period of rapidly expanding international trade and investment, a period known to economic historians as the first wave of globalization, which began in the 1840s with Britain's turn to unilateral free trade and lasted until World War I. The second wave of democratization also occurred in a time of expanding global trade as the more advanced economies turned away from the protectionism of the 1930s and embraced more open trade unilaterally and through successive rounds of negotiation in the General Agreement on Tariffs and Trade. In contrast, those periods that saw retreat from democracy (what Huntington calls "reverse waves") were also marked by broad retreats from free trade. In the first reverse wave, the 1920s and 1930s, the industrial countries increasingly turned to protectionism and economic nationalism; in the second reverse wave, in the 1960s and early 1970s, less developed countries turned inward as they embraced import substitution policies and hostility to foreign investment.

Critics who blame globalization for much of what is wrong in the world today cannot ignore the fact that globalization has been accompanied, in recent decades as well as in previous episodes of history, by the overwhelmingly positive phenomenon of more political and civil freedom for hundreds of millions of people around the world. Critics can dismiss the reality of those two powerful trends as a mere coincidence, but at the very least those trends undercut the argument that globalization has somehow been bad for democracy. During the most recent era of globalization, democracy and respect for individual political and civil freedoms have spread to a larger share of the human race than ever before.

#### **Correlation between Economic Openness and Political and Civil Liberties**

Behind the aggregate trends toward freedom is the question of whether those countries

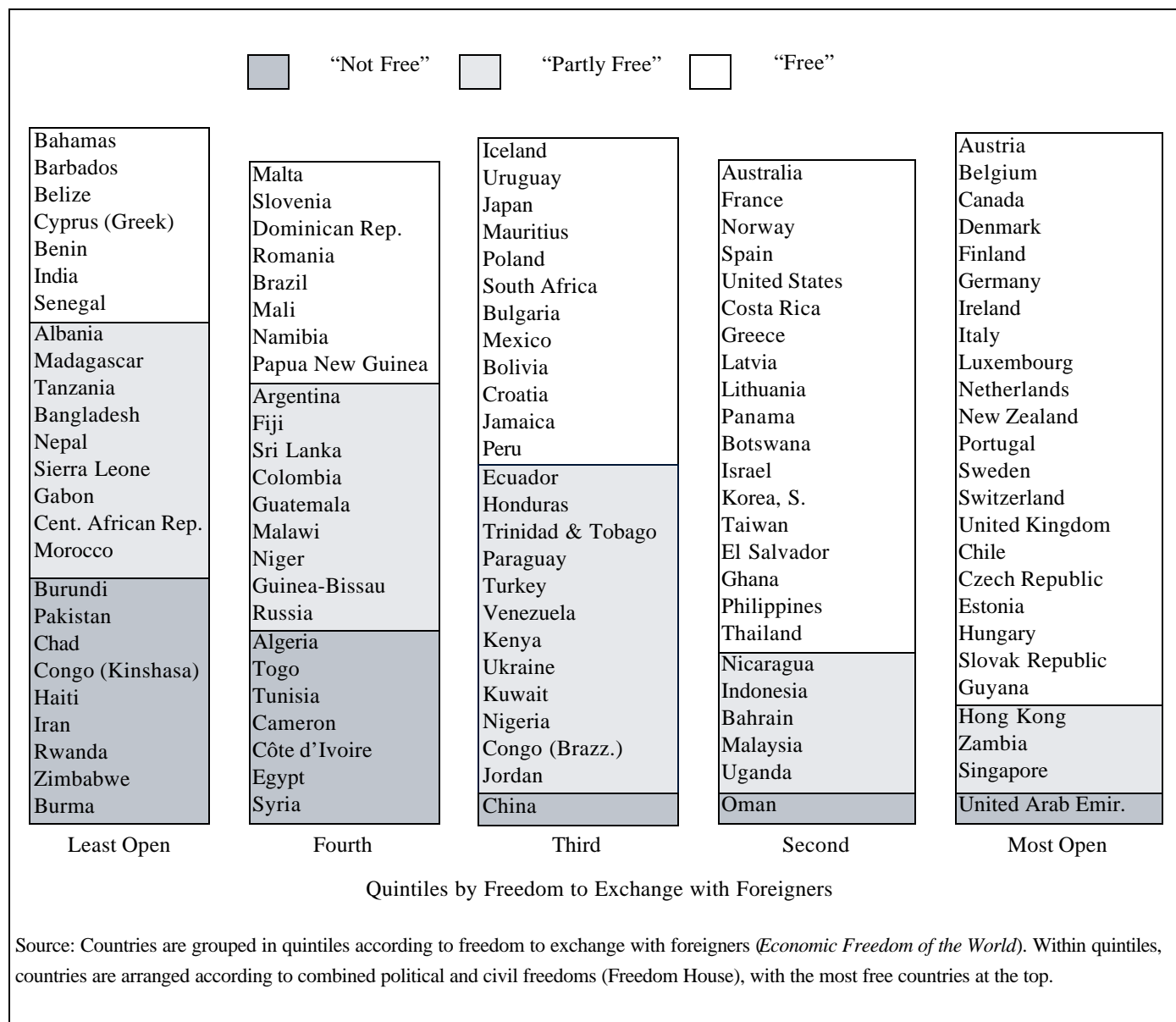
that have opened themselves to trade correlate with those that enjoy political and civil liberties today.

To measure the correlation between openness to trade and civil and political freedom among individual countries, this study uses two comprehensive and newly updated databases to compare economic and political/civil freedom in the world among a broad cross-section of countries. To measure political and civil freedom, we use Freedom House's annual *Freedom in the World* ratings. Freedom House rates virtually all of the world's nations and territories according to their political rights and civil liberties. The organization defines political rights as the ability of a nation's citizens "to participate freely in the political process. This includes the right to vote and compete for public office and to elect representatives who have a decisive vote on public policies." Civil liberties, according to the organization, "include the freedom to develop opinions, institutions, and personal autonomy without interference from the state."<sup>12</sup>

To measure economic freedom and, more specifically, freedom to engage in international commerce, we use the Fraser Institute study, *Economic Freedom of the World*, which measures economic freedom in 123 countries. The study's authors, James Gwartney and Robert Lawson, measure economic freedom in five general areas: size of government; legal structure and security of property rights; access to sound money; regulation of credit, labor, and business; and freedom to exchange with foreigners. The last category will be used in this study to measure a nation's openness to trade and other forms of international commerce. The category includes taxes on international trade and nontariff regulatory trade barriers, the size of the trade sector, official versus black-market exchange rates, and restrictions on capital markets. Those countries rated by both databases encompass more than 90 percent of the world's population.<sup>13</sup>

Comparing the two indexes reveals that nations with open and free economies are far more likely to enjoy full political and civil liberties than those with closed and state-dominated economies. The connection becomes evident

**Figure 3**  
**Economic Openness and Political/Civil Freedom**

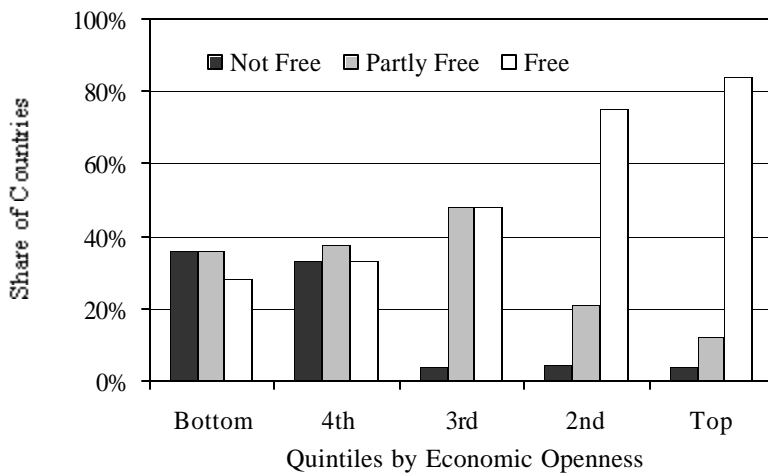


when countries are grouped by quintiles according to their economic openness. Of the 25 rated countries in the top quintile of economic openness, 21 are rated “Free” by Freedom House and only one is rated “Not Free.” In contrast, among the quintile of countries that are the least open economically, only seven are rated “Free” and nine are rated “Not Free” (see Figure 3). In other words, the most economically open countries are three times more likely to enjoy full political and civil freedoms as those

that are economically closed. Those that are closed are nine times more likely to completely suppress civil and political freedoms as those that are open.

The percentage of countries rated as “Free” rises in each quintile as the freedom to exchange with foreigners rises, while the percentage rated as “Not Free” falls. In fact, 16 of the 19 countries rated as “Not Free” are found in the bottom two quintiles of economic openness, and only three in the top three quintiles.

**Figure 4**  
**Political/Civil Freedom and Economic Openness**



Source: Freedom House and *Economic Freedom of the World*.

The percentage of nations rated as “Partly Free” also drops precipitously in the top two quintiles of economic openness (see Figure 4).

A more formal statistical comparison shows a significant, positive correlation between economic freedom, including the freedom to engage in international commerce, and political and civil freedom. The statistical correlation remains strong even when controlling for a nation’s per capita gross domestic product, consistent with the theory that economic openness reinforces political liberty directly and independently of its effect on growth and income levels.

Specifically, a 1.0-point improvement in the 0-to-10 index measuring the freedom to exchange with foreigners implies, on average, a 0.6-point improvement in a comparable 0-10 combined index measuring political and civil freedom.<sup>14</sup> That means that a country that rates a 9.0 on the scale of economic openness will on average rate 3.0 points higher on a comparable index of political and civil freedom compared to a country with the same per capita GDP but with a rating of 4.0 on the scale of economic openness. The same statistically significant correlation holds for a more general measure of economic freedom. Consistent with theory, economic freedoms, including freedom to exchange with foreigners, do in fact strong-

ly correlate with political and civil freedoms.<sup>15</sup>

One unmistakable lesson from the cross-country data is that governments that grant their citizens a large measure of freedom to engage in international commerce find it dauntingly difficult to simultaneously deprive them of political and civil liberties. A corollary lesson is that governments that “protect” their citizens behind tariff walls and other barriers to international commerce find it much easier to deny those same liberties.

### **Trade Reform and Political Reform Often Advance Together**

Still unanswered is the question of whether progress over time toward freer trade accompanies progress in political reform within individual countries. Do nations that progressively open their economies to global competition also follow a path of increasing political and civil freedom? Again, the evidence indicates a significant, positive connection.

Like the Freedom House survey, the *Economic Freedom of the World* survey extends back to the early 1970s for many countries, allowing an analysis of changes over time for a subgroup of 101 countries. A statistical analysis of those countries shows a significant and positive correlation between the expansion of the freedom to exchange with foreigners over the past three decades in individual countries and an expansion of political and civil freedoms in the same country during the same period. In other words, a nation’s growing openness to trade and globalization does often accompany an expansion of political and civil freedoms.<sup>16</sup> Specifically, a 1.0-point improvement over time in a country’s freedom to exchange with foreigners implies, on average, a 0.2-point improvement in its political and civil freedom. That means that a country that improves from 4.0 to 9.0 in its freedom to exchange with foreigners will, on average, experience a 1.0-point improvement in its political and civil freedom. Countries that have most aggressively followed those twin tracks of reform—reflected in their improved scores during the past two decades in the indexes for freedom of exchange and combined political and civil freedom—include

Chile, Ghana, Hungary, Mexico, Nicaragua, Paraguay, Portugal, and Tanzania.<sup>17</sup>

Recent decades have witnessed dramatic examples of how economic freedom and openness promote civil and political reform in individual countries. In Mexico, more than a decade of economic and trade reforms helped lay the foundation for the historic July 2, 2000, election of the opposition candidate Vicente Fox, ending 71 years of one-party rule by the Institutional Revolutionary party (PRI). Internal economic reforms, combined with entry into the General Agreement on Tariffs and Trade in 1986 and the North American Free Trade Agreement in 1994, helped to undermine the dominance of the PRI over the country's economic and political life. Alejandro Junco, publisher of the opposition newspaper *Reforma*, noted after the PRI's historic defeat, "As the years have passed, and with international mechanisms like NAFTA, the government doesn't control the newsprint, they don't have the monopoly on telecommunications, there's a consciousness among citizens that the president can't control everybody."<sup>18</sup>

Other countries have followed that same path to freedom. Economic and trade reforms that began in Chile in the 1970s laid a solid foundation for that country's peaceful transition from military rule to democracy. Twenty years ago, both South Korea and Taiwan were essentially one-party states without free elections or full civil liberties. Today, due in large measure to economic liberalization, trade reform, and the economic growth they spurred, both are thriving democracies where a large and well-educated middle class enjoys the full range of civil liberties. In both countries, opposition parties have gained political power against longtime ruling parties.

Although economic and political freedoms tend to correlate across countries, the freedom to trade and engage in other economic activity does not always accompany civil and political freedom, nor does the absence of the one necessarily preclude the other. As Figure 3 shows, certain countries remain "outliers," defying the general trend. For example, Singapore trails only Hong Kong as the freest and most open

economy in the world, yet it is rated only "Partly Free" in terms of political and civil liberties. At the opposite corner, India remains among the least open economies (despite recent reforms) and yet is a stable democracy, rated among the "Free" nations. Yet even in those two well-known exceptions, the underlying forces that connect political and civil freedom seem to be at work. Since 1991, India has moved decisively if incompletely away from its four-decade experiment in self-imposed economic isolation. Meanwhile, the government of Singapore faces growing pressure to relax its political and social restrictions in an effort to attract and retain more educated, middle-class professionals.<sup>19</sup> Those same forces have been more visibly at work in Hong Kong, another economically open but "Partly Free" Southeast Asian city state where a prosperous and educated middle class have demanded full protection of their civil liberties and a more direct role in choosing their chief executive and representatives.

A few outliers do not disprove a powerful underlying correlation. Because of historical, cultural, and other factors, it would be unrealistic to expect nations to conform to the average correlation in strict linear fashion. Consider a parallel with smoking and human health. For decades, medical researchers have documented the statistical correlation between heavy smoking, lung cancer, and early death. Yet some heavy smokers live to a ripe old age, and nonsmokers can die prematurely from various causes. Those outliers do not disprove the correlation between smoking and diminished health and longevity. Similarly, an economy closed to international trade and commerce does not rule out a healthy body politic, just as an open economy does not guarantee one—but nations that pursue the latter economic policy are unmistakably healthier on average in their respect for political and civil freedoms.<sup>20</sup>

By multiple means of measurement, political and civil freedoms do correlate in the real world with expanding freedom to trade and transact across international borders. Nations that have opened themselves over time to trade and foreign investment are indeed more likely

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to have opened themselves to political competition and thus expanded the freedom of their citizens to speak, assemble, and worship freely. Nations open today to international commerce are far more likely to be free from political and civil repression than those nations that remain closed. And around the globe, the broad expansion of international trade and investment has accompanied an equally broad expansion of democracy and the political and civil freedoms it is supposed to protect.

### **Application: The Middle East, China, Cuba, and CAFTA**

Along with enhancing competition in our economy at home and opening markets for U.S. exporters abroad, free trade can buttress U.S. foreign policy by tilling foreign soil for the spread of democracy and human rights. To the degree that democracies are less likely to wage wars of aggression, free trade can promote a more peaceful world.

Nowhere is the connection between trade and democracy more important than in the Middle East and the broader Muslim world. Democracy, full respect for human rights, and open markets are all relatively rare in that part of the world. According to Freedom House, the Middle East and Muslim-majority countries in general suffer “a democracy gap”: Although three-quarters of non-Muslim countries around the world are democracies, only one-quarter of Muslim countries freely elect their leaders.<sup>21</sup> Among countries with Muslim majorities, only two—Mali and Senegal—are classified by Freedom House as “Free,” respecting the full civil and political liberties of their citizens. More than half of the countries in the world rated as “Not Free” in 2002 were majority Muslim.<sup>22</sup>

At the same time, the Middle East is one of the most economically closed and least integrated regions of the world. Average tariff barriers in the Arab Middle East are among the highest in the world, and as a consequence the region suffers from chronically declining shares of global trade and investment. The resulting political and

economic stagnation, in turn, breeds frustration and hopelessness that can make young people especially vulnerable to recruitment by terrorists and religious extremists.

As an auxiliary to the war on terrorism, Congress and the administration should open the U.S. market to farm and manufactured products from qualified Middle Eastern and other Muslim countries. Meanwhile, the administration should negotiate, and Congress should approve, comprehensive free trade agreements with willing Middle Eastern and other Muslim countries, such as the existing agreement with Jordan and those already in the pipeline with Morocco and Bahrain. An economically open and dynamic Middle East would create opportunity for young people entering the workforce and expand the economically independent middle class, thus encouraging democracy and discouraging terrorism. As Brink Lindsey of the Cato Institute concluded in a recent study, “Promoting economic and political reform throughout the Muslim world has become an urgent priority for U.S. foreign policy—and trade liberalization, while no panacea, is an important part of the equation.”<sup>23</sup>

In China, the link between trade and political reform offers the best hope for encouraging democracy and greater respect for human rights in the world’s most populous nation. After two decades of reform and rapid growth, an expanding middle class is experiencing for the first time the independence of home ownership, travel abroad, and cooperation with others in economic enterprise free of government control. The number of telephone lines, mobile phones, and Internet users has risen exponentially in the past decade. Tens of thousands of Chinese students are studying abroad each year. China’s entry into the World Trade Organization in 2001 has only accelerated those trends.

So far, the people of mainland China have seen only marginal improvements in civil liberties and none in political liberties. But the people of China are undeniably less oppressed than they were during the tumult of the Cultural Revolution under Mao Tse-Tung. In the

prosperous free trade enclave of Hong Kong, a special administrative region of China, public protests earlier this year derailed a government proposal to enact anti-subversion legislation under Article 23 of Hong Kong's Basic Law that many citizens feared would threaten their civil liberties. Although no such public opposition is yet tolerated on the mainland, China's political elite seems to grasp that globalization and development will eventually have political consequences. A recent study by the Chinese Communist Party's influential Central Organization Department noted with concern that "as the economic standing of the affluent stratum has increased, so too has its desire for greater political standing." The study concluded that such a development would have a "profound impact on social and political life" in China.<sup>24</sup> The results of this study indicate that those apprehensions were well founded.

Closer to home, in Cuba, expanded trade with the United States would be a far more promising policy to encourage political reform than the failed four-decades-old economic embargo. Since 1960, Americans have been barred from trading with, investing in, or traveling to Cuba. Besides infringing on the freedom of Americans, the embargo has made life even more difficult for the people of Cuba and has perversely handed Fidel Castro a convenient excuse for the failures of his socialist experiment. But just as importantly, the embargo has blunted the positive impact that expanding trade and contact with Americans could have on Cuban civil society. Cuba does trade with Canada and Western Europe, but potential trade with the United States would be far greater. Based on the evidence of this study, the U.S. government could more effectively promote political and civil freedom in Cuba by allowing more trade and travel than by maintaining the embargo. The folly of imposing trade sanctions in the name of promoting human rights abroad is that sanctions deprive people in the target countries of the technological tools and economic opportunities that nurture political freedom.

In Central America, negotiations for a free trade agreement between the United States and the five members of the Central American

Common Market could be completed and a final agreement considered by Congress as early as 2004. The Central American Free Trade Agreement will be vigorously debated on its economic merits, but the results of this study argue that a free trade agreement will have important and positive political and foreign-policy implications for the region. As recently as the 1980s, Central America was convulsed by civil strife, internal repression, and violent communist insurgencies. Today all five CAFTA countries are democracies that have progressively opened themselves to trade with the United States and the rest of the world. A free trade agreement with the United States would institutionalize trade reform in the region and with it reinforce the region's trend toward more stable democracy and full respect for human rights and political freedom. If members of Congress reject CAFTA on parochial economic grounds, they will in fact be voting to undercut the region's trend toward greater political and civil freedom, and with it our national interest in a more stable and democratic hemisphere.

On a multilateral level, a successful agreement through the World Trade Organization would create a more friendly climate globally for democracy and human rights. Less developed countries, by opening up their own, relatively closed markets, and gaining greater access to rich-country markets, could achieve higher rates of growth and develop the expanding middle class that forms the backbone of most democracies. A successful conclusion of the Doha Development Round that began in 2001 would reinforce the twin trends of globalization and the spread of political and civil liberties that have marked the last 30 years. Failure of the round would delay and frustrate progress on both fronts for millions of people.

## Conclusion

Trade policy has implications beyond economic growth and living standards. It can directly and indirectly influence a nation's political development by decentralizing power

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and influence, by spreading technology, information, and ideas in a society, and by raising incomes and creating a larger middle class. Theory and evidence together argue that trade liberalization and a more general openness to the global economy do correlate with more political and civil freedom, in the world as a whole and within individual countries.

When debating trade policy, members of Congress cannot ignore the broader foreign policy implications of trade. By opening our markets at home and encouraging freer trade abroad, the United States promotes not only economic growth but a more humane and democratic world. Free trade and globalization do not guarantee democracy and respect for human rights, but they do provide a more favorable trade wind for achieving those goals. Members of Congress who consistently vote against more open markets at home and market-opening trade agreements with other nations are in effect voting to keep millions of people locked within the walls of tyranny, and millions more trapped in a partly free netherworld of half-rights, half-freedoms, and half-democracy.

In light of the evidence that free trade promotes democracy and civil freedoms, policymakers in Washington need to ask themselves: How can we fully ensure our security as a nation when billions of people around the world are denied their most basic rights to civil freedom, representative government, and the opportunity to realize their productive potential in the marketplace? And how can we encourage the spread of democracy and human rights if billions of people remain trapped in poverty and economic stagnation, lacking freedom, education, and the most basic tools of modern life? And how can we hope to see them escape that poverty to join the independent middle class without allowing them to participate in the global marketplace?

Human liberties cannot be neatly compartmentalized. Expanding the freedom of people to engage in transactions across international borders over time enlarges their freedom to exercise autonomy over other, noncommercial aspects of their daily lives and to shape and chose a government that will protect those basic rights. If it

is in our national interest to encourage the expansion of human rights and democracy abroad—and it most certainly is—the U.S. government should also champion the expansion of international trade and commerce.

## Notes

1. The White House, "President Bush Discusses Freedom in Iraq and Middle East," Remarks by the President at the 20th Anniversary of the National Endowment for Democracy, United States Chamber of Commerce, Washington, November 6, 2003, <http://www.whitehouse.gov/news/releases/2003/11/20031106-2.html>.
2. The White House, "President Calls on Senate to Pass Trade Promotion Authority," Remarks by the President on Trade Promotion Authority, Department of State, April 4, 2002, [www.whitehouse.gov/news/releases/2002/04/20020404-4.html](http://www.whitehouse.gov/news/releases/2002/04/20020404-4.html).
3. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 9.
4. Michael Novak, *Business as a Calling: Work and the Examined Life* (New York: The Free Press, 1996), p. 161.
5. James Gwartney and Robert Lawson, *Economic Freedom of the World: 2001 Annual Report* (Vancouver, B.C.: Fraser Institute, 2001), p. 78.
6. David Dollar and Aart Kraay, "Trade, Growth, and Poverty," World Bank, Washington, June 2001, p. 27.
7. See Jeffrey Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration," *Brookings Papers on Economic Activity* 1 (1995): 1-95; Sebastian Edwards, "Openness, Productivity and Growth: What Do We Really Know?" National Bureau of Economic Research Working Paper no. 5978, Cambridge, Massachusetts, 1997; and Jeffrey A. Frankel and David Romer, "Does Trade Cause Growth?" *American Economic Review*, June 1999, pp. 379-99.
8. Seymour Martin Lipset, *Political Man: The Social Bases of Politics* (Garden City, NY: Anchor Books, 1963), p. 31. More than two millennia ago, Aristotle articulated the contribution of the middle class to stable democracy (as quoted in Lipset, p. vii): "Thus it is manifest that the best political community is formed by citizens of the middle class, and that those states are likely to be well administered, in which the middle class is large . . ." and where citizens have a "moderate and sufficient property."

9. Adrian Karatnycky, "Liberty's Expansion in a Turbulent World: Thirty Years of the Survey of Freedom," in *Freedom in the World 2003* (New York: Freedom House, 2003), [www.freedomhouse.org/research/freeworld/2003/akessay.htm](http://www.freedomhouse.org/research/freeworld/2003/akessay.htm).
10. Freedom House, "Selected Data From Freedom House's Annual Global Survey of Political Rights and Civil Liberties," in *Freedom in the World 2003*, [www.freedomhouse.org/research/freeworld/2003/charts.pdf](http://www.freedomhouse.org/research/freeworld/2003/charts.pdf).
11. Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman, OK: University of Oklahoma Press, 1991), pp. 16-21.
12. See Freedom House, "Survey Methodology," in *Freedom in the World 2003*, <http://www.freedomhouse.org/research/freeworld/2003/methodology.htm>, for a more detailed description of how countries are rated.
13. The combined database used in this study by necessity excludes about one-third of states considered to be sovereign nations. While Freedom House rates 192 sovereign nations on their political and civil freedom, the ratings for economic freedom and openness cover 123 nations. Producing a meaningful rating for economic freedom and openness can be practically impossible for many countries. Some are too small in population or economically dependent on a much larger neighbor for a rating to be meaningful. In other countries, such as Afghanistan, Angola, Lebanon, Liberia, Somalia, Sudan, and Yugoslavia, recent civil wars and internal chaos render a systematic rating on economic freedom impossible. Another group of countries is so economically backward and dominated by government control that the most basic economic data to construct a rating simply do not exist. Among the unfortunate countries in this last category are Cuba, Ethiopia, Iraq (under Saddam Hussein's rule), North Korea, Vietnam, and Yemen. Most of the more populous nations not included in this study lack economic freedom as well as political and civil freedom, which is consistent with the general thesis of this study.
14. The Freedom House index rates countries on a 1 to 7 scale, with 1 being the most free and 7 being the least free. *Economic Freedom of the World* rates countries on a 0 to 10 scale, with 10 being the most free and 0 being the least free. For ease of comparison, I have converted the Freedom House ratings to a 0 to 10 scale similar to that used in *Economic Freedom of the World*.
15. The statistical analysis in this and the following subsection was performed by my colleague Peter Van Doren of the Cato Institute.
16. The connection between broader economic liberalization, including purely domestic reforms, and political and civil reforms was still positive but not statistically significant according to the conventional benchmark of statistical analysis. According to the analysis performed for this study, there is an 84 percent chance that the correlation found in the data between economic freedom and political and civil freedom reflects a genuine connection and is not the result of a random variation in the data. The probability that the connection between changes in the freedom to exchange with foreigners and changes in political and civil freedom reflects a genuine connection is 98 percent, above the commonly accepted threshold of 95 percent confidence. While more general economic liberalization often accompanies political and civil reform, trade reform has proven to be an even closer companion.
17. These countries were determined by comparing their current index rating for freedom to exchange with foreigners and for the combined political and civil freedom with its average rating in those categories for the years 1975, 1980, and 1985.
18. Mary Beth Sheridan, "Nation Awakens from Era of Repression under PRI," *Los Angeles Times* July 29, 2000, p. A1, A6.
19. See, for example, "Shhh! It's Singapore," editorial, *Wall Street Journal*, November 19, 2003; and G. Pascal Zachary, "Stern Singapore Hopes Relaxing Some Rules Is Good for Business," *Wall Street Journal*, June 2, 1999.
20. I am indebted to my colleague Peter Van Doren for the smoking analogy.
21. Adrian Karatnycky, "The 2001-2002 Freedom House Survey of Freedom: The Democracy Gap," in *Freedom in the World 2002*, p. 10, <http://www.freedomhouse.org/research/freeworld/2002/akessay.pdf>.
22. Karatnycky, "Liberty's Expansion in a Turbulent World: Thirty Years of the Survey of Freedom."
23. Brink Lindsey, "The Trade Front: Combating Terrorism with Open Markets," Cato Trade Policy Analysis no. 24, August 5, 2003, p. 3.
24. "To Get Rich Is Glorious," *The Economist*, January 17, 2002.

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